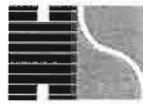


FINANCIAL REPORT
BEAVER ISLAND COMMUNITY SCHOOL
June 30, 2006

**BEAVER ISLAND COMMUNITY SCHOOL
FINANCIAL REPORT
Year Ended June 30, 2006**

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Hill • Schroderus & Co., LLP

Certified Public Accountants & Consultants

September 21, 2006

Independent Auditors' Report

Superintendent and
Board of Education
Beaver Island Community School
Beaver Island, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Beaver Island Community School, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Beaver Island Community School, as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2006, on our consideration of Beaver Island Community School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Beaver Island Community School
Beaver Island, Michigan

The management's discussion and analysis and the budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Beaver Island Community School's basic financial statements. The accompanying other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hill, Schroderus & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan



Management's Discussion and Analysis

Overview of the Basic Financial Statements

Beaver Island Community School's, (the "School's") basic financial statements include government-wide statements, fund financial statements and notes to the financial statements. This report also contains required and other supplemental information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements report information on all of the School's nonfiduciary funds. The government-wide statements are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The Statement of Net Assets displays all of the School's assets and liabilities, with the difference reported as net assets. All long-term assets and debt obligations are presented.

The Statement of Activities focuses on the gross and net cost of the various functions within the School (instruction, support services, etc.), which are supported by the School's general revenues (property taxes, unrestricted state aid, etc.).

Fund Financial Statements

The fund financial statements report on the governmental funds, with an emphasis on major funds. Major funds are determined by the level of activity within the various funds. The focus of the fund financial statements is on the sources and uses of funds during the current year.

The fiduciary fund is also presented; separate from the governmental funds, due to the fact that these assets do not represent assets of the School. These assets are not presented as part of the Government-wide financial statements.

Beaver Island Community School maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, which is considered a major fund. Data from the other four governmental funds are combined into a single, nonmajor governmental funds column. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the Other Supplemental Information section of the report.

Notes to the Financial Statements

The notes provide additional information which is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

The table below summarizes the District's net assets as of June 30, 2006:

Beaver Island Community School's Net Assets		
June 30, 2006 and 2005		
	<u>2006</u>	<u>2005</u>
Assets		
Current and other assets	\$ 287,677	\$ 429,887
Capital assets - net of accum. dep.	<u>1,139,010</u>	<u>1,090,884</u>
Total assets	<u>1,426,687</u>	<u>1,520,771</u>
Liabilities		
Current liabilities	330,070	403,417
Noncurrent liabilities	<u>-</u>	<u>170,696</u>
Total liabilities	<u>330,070</u>	<u>574,113</u>
Net Assets		
Investment in capital assets, net of related debt	986,280	800,424
Restricted	9,920	16,998
Unrestricted	<u>100,417</u>	<u>129,236</u>
Total net assets	<u>\$ 1,096,617</u>	<u>\$ 946,658</u>

At the end of the fiscal year, Beaver Island Community School is able to report positive balances in all three categories of net assets. The largest portion of the School's net assets is its investment in capital assets (land, construction in progress, buildings, equipment and vehicles); less any related debt used to acquire those assets that is still outstanding. The School uses these capital assets in providing educational services; consequently, these assets are not available for future spending.

The second portion of net assets, restricted net assets, represents resources that are subject to external restrictions on how they may be used. This would include restrictions for debt service and capital projects expenses.

The remaining portion of net assets, unrestricted net assets, may be used at the School's discretion to meet ongoing obligations.

The results for the School as a whole are reported in the Statement of Activities, which is summarized below:

Beaver Island Community School's Change in Net Assets
Years Ended June 30, 2006 and 2005

	2006	2005
Revenue		
Program revenue:		
Charges for services	\$ 4,194	\$ 7,320
Grants and contributions	243,414	248,908
General revenue:		
Property taxes	1,344,275	1,265,940
State aid, unrestricted	115,607	132,604
Interest and investment earnings	8,251	4,662
Other	23,037	7,720
Total revenues	<u>1,738,778</u>	<u>1,667,154</u>
Function/Program Expenses		
Instruction	840,711	876,567
Support services	646,821	517,115
Food services	24,221	27,071
Athletics	24,652	23,257
Community services	-	30
Interest/fees on long-term debt	16,436	22,133
Depreciation (unallocated)	35,978	26,218
Total expenses	<u>1,588,819</u>	<u>1,492,391</u>
Change in net assets	149,959	174,763
Net assets - beginning of year	<u>946,658</u>	<u>771,895</u>
Net assets - end of year	<u><u>\$ 1,096,617</u></u>	<u><u>\$ 946,658</u></u>

As reported above, the School recorded \$1,588,819 of expenses. The majority of the School's activities were funded by property taxes, grants and contributions. However, the state approved additional funding last year for "Isolated Districts" which significantly increased state funding for the School.

The School experienced an increase in net assets primarily due to the retirement of \$155,696 in debt and \$84,104 in capital outlays exceeding the depreciation of assets of \$35,978. In the fund financial statements these debt and capital outlay payments represent expenditures of available spendable resources, however in the government wide statements as noted above they are not current expenses. Depreciation is used to ratably expense these over the estimated time to be benefited. That is why the fund financial statements indicate a \$55,074 deficiency and the government wide statements indicate an increase in net assets of \$149,959.

Fund Financial Analysis

As of year-end, the governmental funds reported a combined fund balance of approximately \$130,000, which is \$55,000 less than the beginning of the year. The decrease was mainly due to General Fund expenditures exceeding revenues. State and Federal revenue sources were down from last year, while health insurance and retirement costs continue to increase at rates greater than that of ordinary inflation.

General Fund Budgetary Highlights

Final budgeted revenues were up slightly from the original budgeted revenues. It reflected more local revenue and less state revenue. Final budgeted expenditures were also higher than originally budgeted and reflected a budget more in accordance with the state mandated chart of accounts.

Final actual revenues were very close to final budgeted amounts. Final actual expenditures were slightly over final budgeted amounts.

Capital Assets

At June 30, 2006 the School had \$1,622,704 invested in capital assets. The following table summarizes the capital asset activity for the year:

Beaver Island Community Schools Capital Asset Activity
Year Ended June 30, 2006

	July 1, 2005	Additions	Disposals	June 30, 2006
Land and improvements	\$ 92,228	\$ -	\$ -	\$ 92,228
Construction in progress	31,071	-	31,071	-
Buildings and improvements	1,397,779	103,675	-	1,501,454
Vehicles	17,522	-	-	17,522
Equipment	-	11,500	-	11,500
Total capital assets	1,538,600	115,175	31,071	1,622,704
Less accum. depreciation	447,716	35,978	-	483,694
Net capital assets	<u>\$ 1,090,884</u>	<u>\$ 79,197</u>	<u>\$ 31,071</u>	<u>\$ 1,139,010</u>

The majority of the capital assets additions pertained to sinking fund expenditures, including general building improvements. The School District also purchased a phone system.

Debt Outstanding

At the end of the year, the School had \$135,000 in bonds outstanding. Below is the debt activity for the year:

Beaver Island Community Schools' Debt Activity Year Ended June 30, 2006

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2006</u>
Bonds payable	\$ 255,000	\$ -	\$ 120,000	\$ 135,000
Land contract	35,460	-	17,730	17,730
Early retirement incentives	35,932	-	17,966	17,966
	<u>\$ 326,392</u>	<u>\$ -</u>	<u>\$ 155,696</u>	<u>\$ 170,696</u>

Economic Factors

While the population of Beaver Island is growing faster than the state, the school enrollment is not growing. The island's population is older than the state average with 55% of the island's population 45 and older. The median income of parents with children is significantly lower than the state average with most families reporting in the low and middle income groups. Most of the children in the district have two parents who work and most parents work in jobs that do not require post secondary education. (Based on summary of work by Bettie Landaue-Menchik, Director, Data Services Unit, K-12 Outreach, MSU).

The district recognizes that the student population is showing a downward trend and that economic development which supports jobs that do require post secondary education is essential to the continued vitality of the district. If current economic and population trends continue, student enrollment will fall below 70.

Financial Contact

The School's financial statements are designed to present users with a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed towards the Business Office, Beaver Island Community School.

BEAVER ISLAND COMMUNITY SCHOOL
Statement of Net Assets
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current Assets	
Cash	\$ 246,115
Due from other governmental units	27,119
Due from Fiduciary Fund	5,317
Prepaid expenses	<u>9,126</u>
Total current assets	<u>287,677</u>
Noncurrent Assets	
Capital assets	1,622,704
Less: accumulated depreciation	<u>(483,694)</u>
Total noncurrent assets	<u>1,139,010</u>
Total assets	<u><u>\$ 1,426,687</u></u>
 <u>Liabilities and Net Assets</u>	
Current Liabilities	
Accounts payable	\$ 6,660
Payroll deductions and withholdings	29,590
Accrued expenses	42,637
Accrued interest payable	1,372
Salaries payable	77,115
Deferred revenue	2,000
Noncurrent liabilities, due within one year	<u>170,696</u>
Total current liabilities	<u>330,070</u>
Noncurrent Liabilities, Net of Current Portion	
Bonds payable	-
Land contract	-
Early retirement incentives	<u>-</u>
Total noncurrent liabilities	<u>-</u>
Total liabilities	<u>330,070</u>
Net Assets	
Investment in capital assets, net of related debt	986,280
Restricted for debt service	4,258
Restricted for capital projects	5,662
Unrestricted	<u>100,417</u>
Total net assets	<u>1,096,617</u>
Total liabilities and net assets	<u><u>\$ 1,426,687</u></u>

BEAVER ISLAND COMMUNITY SCHOOL
Statement of Activities
Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 840,711	\$ -	\$ 110,968	\$ (729,743)
Support services	646,821	-	111,655	(535,166)
Athletics	24,652	-	6,500	(18,152)
Food services	24,221	4,194	14,291	(5,736)
Community services		-	-	-
Interest/fees on long-term debt	16,436	-	-	(16,436)
Depreciation (unallocated)	35,978	-	-	(35,978)
Total governmental activities	<u>\$ 1,588,819</u>	<u>\$ 4,194</u>	<u>\$ 243,414</u>	<u>(1,341,211)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				1,124,251
Property taxes, levied for debt services				134,991
Property taxes, levied for capital expenditures				85,033
State aid, unrestricted				115,607
Interest and investment earnings				8,251
Other				<u>23,037</u>
Total general revenues				<u>1,491,170</u>
Change in net assets				149,959
Net assets - beginning of year				<u>946,658</u>
Net assets - end of year				<u>\$ 1,096,617</u>

BEAVER ISLAND COMMUNITY SCHOOL
Governmental Funds
Balance Sheet
June 30, 2006

	General	Other Nonmajor Governmental Funds	Total
<u>Assets</u>			
Cash	\$ 229,968	\$ 16,147	\$ 246,115
Due from other funds	11,350	-	11,350
Due from other governmental units	26,958	161	27,119
Prepaid expenses	9,126	-	9,126
	<hr/>	<hr/>	<hr/>
Total assets	\$ 277,402	\$ 16,308	\$ 293,710
	<hr/>	<hr/>	<hr/>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 6,492	\$ 168	\$ 6,660
Due to other funds	-	6,033	6,033
Payroll deductions and withholdings	29,590	-	29,590
Accrued expenses	42,637	-	42,637
Salaries payable	77,115	-	77,115
Deferred revenue	2,000	-	2,000
	<hr/>	<hr/>	<hr/>
Total liabilities	157,834	6,201	164,035
	<hr/>	<hr/>	<hr/>
Fund Balances:			
Reserved for prepaid expenses	9,126	-	9,126
Reserved for debt service	-	4,258	4,258
Reserved for capital improvements	-	5,662	5,662
Unreserved:			
Undesignated	110,442	187	110,629
	<hr/>	<hr/>	<hr/>
Total fund balances	119,568	10,107	129,675
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	\$ 277,402	\$ 16,308	\$ 293,710
	<hr/>	<hr/>	<hr/>

BEAVER ISLAND COMMUNITY SCHOOL
Governmental Funds
Reconciliation of Balance Sheet of Governmental Funds to Net Assets
June 30, 2006

Total Fund Balances - Governmental Funds	\$ 129,675
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds balance sheet	
Cost of capital assets	1,622,704
Accumulated depreciation	(483,694)
Interest is accrued on outstanding bonds in governmental activities, whereas in governmental funds, an interest expenditure is reported when due	
	(1,372)
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds balance sheet	
Bonds payable	(135,000)
Land contract	(17,730)
Early retirement incentives	<u>(17,966)</u>
Total net assets - governmental activities	<u>\$ 1,096,617</u>

BEAVER ISLAND COMMUNITY SCHOOL
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2006

	General	Other Nonmajor Governmental Funds	Total
Revenues			
Local sources	\$ 1,155,525	\$ 231,597	\$ 1,387,122
State sources	143,051	1,196	144,247
Federal sources	22,819	13,095	35,914
Interdistrict and other sources	171,495	-	171,495
	<u>1,492,890</u>	<u>245,888</u>	<u>1,738,778</u>
Total revenues			
	<u>1,492,890</u>	<u>245,888</u>	<u>1,738,778</u>
Expenditures			
Current:			
Instruction	858,677	-	858,677
Support services	646,821	-	646,821
Athletics	-	24,652	24,652
Food Service	-	24,221	24,221
Community services	-	-	-
Debt service:			
Principal	-	137,730	137,730
Interest	-	16,634	16,634
Other	-	1,013	1,013
Capital outlay	11,500	72,604	84,104
	<u>1,516,998</u>	<u>276,854</u>	<u>1,793,852</u>
Total expenditures			
	<u>1,516,998</u>	<u>276,854</u>	<u>1,793,852</u>
Excess (deficiency) of revenues over expenditures	<u>(24,108)</u>	<u>(30,966)</u>	<u>(55,074)</u>
Other financing sources (uses)			
Operating transfers in	-	22,240	22,240
Operating transfers out	(22,240)	-	(22,240)
	<u>(22,240)</u>	<u>22,240</u>	<u>-</u>
Total other financing sources (uses)			
	<u>(22,240)</u>	<u>22,240</u>	<u>-</u>
Net change in fund balances	(46,348)	(8,726)	(55,074)
Fund balances - beginning of year	<u>165,916</u>	<u>18,833</u>	<u>184,749</u>
Fund balances - end of year	<u>\$ 119,568</u>	<u>\$ 10,107</u>	<u>\$ 129,675</u>

BEAVER ISLAND COMMUNITY SCHOOL
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ (55,074)
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:

Capital outlay	84,104
Depreciation expense	(35,978)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayments reduce long-term liabilities in the statement of net assets:

Bonds	120,000
Land contract	17,730
Early retirement incentives	17,966

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

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Change in net assets - governmental activities

	\$ 149,959
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BEAVER ISLAND COMMUNITY SCHOOL
Fiduciary Fund
Statement of Fiduciary Net Assets
June 30, 2006

	<u>Student Activities Agency Fund</u>
Assets	
Cash	\$ 31,724
Due from general fund	<u>-</u>
Total assets	<u><u>\$ 31,724</u></u>
Liabilities	
Due to general fund	\$ 5,317
Due to student groups	<u>26,407</u>
	<u><u>\$ 31,724</u></u>

**BEAVER ISLAND COMMUNITY SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Beaver Island Community School (the "School District") operates under a Board-Superintendent form of government and provides education services to its residents. The accounting policies of the School District conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant policies used by the School District:

Reporting Entity

The accompanying financial statements have been prepared in accordance with criteria established by Governmental Accounting Standards Board Statement (GASBS) No. 14 (and amended by GASBS No. 39). GASBS 14 states the primary basis for determining whether outside agencies and organizations should be considered component units of the School District and included in the School District's financial statements is financial accountability. Financial accountability has been defined as follows: A primary government has substantive authority to appoint a voting majority of the component unit's board; the primary government is either able to impose its will on a component unit or there is a potential for the component unit to provide specific financial burdens on the primary government; and the component unit is fiscally dependent on the primary government. The School District has no component units.

Basic Financial Statements – Overview

The School District's basic financial statements include both government-wide (reporting the School District as a whole) and fund financial statements (reporting the School District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's activities are considered governmental activities.

Basic Financial Statements – Government-Wide Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government. These statements are reported using the economic resources measurement focus and the full accrual basis of accounting. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. The government-wide focus is more on operational efficiency, the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The School District first utilizes restricted resources to finance qualifying activities.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basic Financial Statements – Government-Wide Statements - Continued

The government-wide Statement of Activities, due to the full accrual, economic resource basis, records revenue when it is earned and expenses when a liability is incurred, regardless of the timing of related cash flows. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, unrestricted State Aid and other items not properly included among program revenues are reported as general revenue. Any net costs, by function, are allocated to the general revenue.

Basic Financial Statements – Fund Financial Statements

The financial transactions of the School District are reported in individual funds in the fund financial statements. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The emphasis in the fund financial statements is on the major funds in the governmental activities category. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures of the governmental funds) for the determination of major funds. The School District's major fund, as described below, is the General Fund. Non-major funds by category are summarized into a single column.

The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they become both available and measurable. Revenues are available when received within the current period or within 60 days after year end. Expenditures are recorded in the accounting period in which the liability is incurred. The exception to this general rule is principal and interest on general obligation long-term debt, if any, is recognized when due.

The focus of the fund financial statements is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into generic fund types and broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not provided for in other funds. The General Fund is a major fund of the School District.

NOTES TO FINANCIAL STATEMENT - CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basic Financial Statements – Fund Financial Statements - Continued

Governmental Funds - Continued

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds – The School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Funds maintained by the School District are the Cafeteria and Athletic Fund.

Debt Service Funds – The Debt Retirement Funds are used to record tax and interest revenue and the payment of interest, principal and other expenditures on long-term bonded debt. The Debt Service Funds maintained by the School District is the General Obligation Fund.

Capital Project Funds – The Capital Project Funds are used to record bond proceeds, tax revenues, or other revenue, and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for major remodeling and repairs. These funds are kept open until the purpose for which they were created has been accomplished. The Capital Project Fund maintained by the School District is the Sinking Fund. The Sinking Fund was approved by the voters for a period of five years, fiscal 2003 through 2007 to levy an amount not to exceed 1 mill on all property for constructing, remodeling and repairing school buildings and developing and improving sites. For this fund, the School District has complied with the applicable provision of § 1212 (1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the School District in a trustee or agency capacity for others and therefore are not available to support School District programs. Since these funds cannot be used to address activities or obligations of the School District, these funds are not incorporated into the government-wide statements. Fiduciary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting. The following agency fund is presented in the Statement of Fiduciary Net Assets:

Student Activities Agency Fund – The School District presently maintains a Student Activities Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held by the School District for the students.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and other accounts that have the general characteristics of demand deposits.

NOTES TO FINANCIAL STATEMENT - CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets

Capital assets, which include land, buildings, equipment and vehicles, are reported in the Statement of Net Assets in the government-wide financial statements. Capital assets are defined by the School District as assets that are purchased or acquired with an original cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date donated. Additions, improvements and other capital outlay that significantly extend the useful life of an asset, or increase its capacity or efficiency, are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	20-50 years
Furniture and other equipment	5-15 years
Vehicles	7 years

Comparative Data

Comparative total data for the prior year is not included in the School District's financial statements.

NOTE 2: BUDGETING/COMPLIANCE

The School District is required under Public Act 621 to adopt a budget for the General and Special Revenue Funds. Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for these funds. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. All annual appropriations lapse at year end.

The presentation of budgetary information is required for the General Fund and all major Special Revenue Funds. (The School District does not have any major Special Revenue Funds). In the required supplemental information section, the School District's actual and budgeted expenditures for the General Fund are presented. During the year, the School District incurred expenditures, which were in excess of appropriations for the General Fund in the amount of \$3,900.

NOTE 3: CASH

Cash Deposits

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

NOTES TO FINANCIAL STATEMENT - CONTINUED

NOTE 3: CASH – CONTINUED

Cash Deposits – Continued

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. At year-end, the carrying amount of the School District's deposits for both governmental activities and fiduciary funds was \$277,839 and the bank balance was \$291,623. Of the bank balance, \$158,735 was covered by federal depository insurance. The remaining \$132,888 was uninsured and uncollateralized. State statutes prohibit security in the form of collateral, surety bonds or another form be taken for the deposit of public funds.

NOTE 4: PROPERTY TAXES

Property taxes are levied and become a lien on property as of December 1 on the State taxable valuation of property in the School District as of the preceding December 31.

Property taxes are recognized as revenue in the fiscal year they are levied. The Michigan School Accounting Manual requires property taxes receivable be written off in the current year if not received within 60 days of the end of the previous year. This applies to both the government-wide (full accrual) and the fund (modified accrual) financial statements. There is no significant departure from the full accrual basis of accounting using this method.

The 2005 State taxable valuation of non-homestead property as of September 29, 2005 for Beaver Island Community School totaled \$72,291,745, on which taxes levied consisted of 15.7908 mills for operating purposes. The total taxable valuation of the School District as of September 29, 2005 was \$92,365,743, on which taxes levied consisted of 1.460 mills for debt retirement and 0.9191 mill for Sinking Fund expenditures. These amounts are recognized in the respective General, Debt Service and Capital Project funds.

Classification of assessed property between homestead vs. non-homestead is subject to change. In addition, Michigan Tax Tribunal and Board of Review changes throughout the year affect the total taxable valuation.

NOTES TO FINANCIAL STATEMENT - CONTINUED

NOTE 5: CAPITAL ASSETS

Capital asset activity for the School District's governmental activities was as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2006</u>
Assets not being depreciated:				
Land and improvements	\$ 92,228	\$ -	\$ -	\$ 92,228
Construction in progress	31,071	-	31,071	-
Subtotal	<u>123,299</u>	<u>-</u>	<u>31,071</u>	<u>92,228</u>
Capital assets being depreciated:				
Buildings and improvements	1,397,779	103,675	-	1,501,454
Vehicles	17,522	-	-	17,522
Equipment	-	11,500	-	11,500
Accumulated depreciation:				
Buildings and improvements	<u>(447,716)</u>	<u>(35,978)</u>	<u>-</u>	<u>(483,694)</u>
Net capital assets being depreciated	<u>967,585</u>	<u>79,197</u>	<u>-</u>	<u>1,046,782</u>
Governmental activities net capital assets	<u>\$ 1,090,884</u>	<u>79,197</u>	<u>\$ 31,071</u>	<u>\$ 1,139,010</u>
Governmental activities depreciation expense was charged as follows:				
Unallocated	<u>\$ 35,978</u>			

NOTE 6: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The interfund balances within the school district are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 11,350	\$ -
Cafeteria Fund	-	-
Debt Service Fund	-	3,210
Capital Project	-	2,823
Fiduciary Fund	<u>-</u>	<u>5,317</u>
	<u>\$ 11,350</u>	<u>\$ 11,350</u>

NOTES TO FINANCIAL STATEMENT - CONTINUED

NOTE 6: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS – CONTINUED

The interfund balances are for other fund expenses paid from the general fund.

Interfund transfers consist of the following:

The General Fund made transfers in the amounts of \$4,088 to the Cafeteria Fund and \$18,152 to the Athletic Fund. The General Fund makes transfers on a yearly basis to support these funds.

NOTE 7: DEFERRED REVENUE

Deferred revenue in the government-wide and the fund financial statements consists of categorical and other grant monies received but not yet earned at year end. Deferred revenue in the fund financial statements also consists of monies that are not considered both available and measurable. Deferred revenues for the year ended June 30, 2006 are comprised of the following:

<u>Grant</u>	<u>Unearned</u>	<u>Unavailable</u>
Summer School	<u>\$ 2,000</u>	<u>\$ -</u>

NOTE 8: SHORT-TERM DEBT – STATE AID NOTES

The School issues Tax Anticipation notes in advance of property tax receipts, depositing the proceeds in the General Fund. This note was necessary because property tax payments were not received before December of the school year.

Short-term debt activity for the year ended June 30, 2006, excluding interest expense of \$5,457 was as follows:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Tax Anticipation Note	<u>\$ -</u>	<u>\$ 325,000</u>	<u>\$ 325,000</u>	<u>\$ -</u>

NOTES TO FINANCIAL STATEMENT - CONTINUED

NOTE 9: LONG-TERM DEBT

The following is a summary of the School District's governmental activities long-term debt transactions for the year ended June 30, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Bonds and notes payable:					
General obligation debt	\$ 255,000	\$ -	\$ 120,000	\$ 135,000	\$ 135,000
Other liabilities:					
Land contract note	35,460	-	17,730	17,730	17,730
Early retirement incentives	35,932	-	17,966	17,966	17,966
Total governmental activities long-term liabilities	<u>\$ 326,392</u>	<u>\$ -</u>	<u>\$ 155,696</u>	<u>\$ 170,696</u>	<u>\$ 170,696</u>

Long-term debt payable at June 30, 2006, is comprised of the following individual instruments:

1992 School Building and Site Bonds due in annual installments of \$135,000 through May 7, 2007; interest at 5.65%	\$ 135,000
2005 land contract due in annual installments of \$17,730 through January 15, 2007; interest at 0%	17,730
Retirement agreements due in annual installments of \$17,966 through June 2007	<u>17,966</u>
Total governmental activities general obligation debt	<u>\$ 170,696</u>

The annual requirements to amortize all governmental bond obligations are as follows:

<u>Year Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	<u>\$ 135,000</u>	<u>\$ 8,232</u>	<u>\$ 143,232</u>

Bond payments, including interest, are made from the Debt Service Fund. There are limitations and restrictions contained in the bond indenture. The District is in compliance with all significant limitations and restrictions.

NOTES TO FINANCIAL STATEMENT - CONTINUED

NOTE 10: DEFINED BENEFIT PENSION PLAN AND POST EMPLOYMENT BENEFITS

The Beaver Island Community School contributes to the Michigan Public School Employees Retirement System (MPERS), a cost sharing, multiple employers, state wide public employee retirement plan governed by the State of Michigan and created in 1915. MPERS was established by the State of Michigan for purposes of providing retirement, survivor and disability benefits to the State's public school employees. MPERS now operates under the provisions of Public Act 300 of 1980, as amended. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30026, Lansing, MI 48909-7526 or by calling (517) 322-6278.

Prior to January 1, 1990, MPERS provided a choice of two retirement plans, the Basic Plan, which required no employee contribution and the Member Investment Plan (MIP). For members hired on January 1, 1990 or after, membership in MIP is mandatory. MIP members are required to contribute 3 to 4.3 percent of their annual covered salary and Beaver Island Community School is required to contribute at an actuarially determined rate. The current rate is 16.34% of annual covered payroll, of which approximately 6.55% is for other post employment benefits (see below). The contribution requirements of plan members and Beaver Island Community School are established and may be amended by the MPERS Board.

The School District's contribution to MPERS for the years ending June 30, 2006, 2005 and 2004 were \$119,812, \$105,995 and \$88,747 respectively, equal to the required contributions for each year.

Other post employment benefits

Also under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage which are funded on a cash disbursement basis. Retirees having these coverages contribute an amount approximately equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for health, dental and vision coverages.

The number of plan participants and other relevant financial information consisted of the following at September 30, 2005, the date of the latest actuarial valuation.

Eligible retired participants	151,706
Participants receiving benefits:	
Health	115,071
Dental/Vision	122,291
Expenses for the year	\$761,695,958
Payroll contribution rate	6.55%

NOTES TO FINANCIAL STATEMENT - CONTINUED

NOTE 11: RESERVES AND DESIGNATIONS OF FUND BALANCES

Major Governmental Funds

General Fund – The General Fund's reserved fund balance includes amounts for prepaid expenses.

Nonmajor Governmental Funds

Capital Project Fund – The Capital Project Fund has a reserved fund balance for the acquisition and/or construction of major capital assets.

Debt Service Fund – The Debt Service Fund's reserved fund balance represents resources legally restricted for the payment of principal and interest amounts maturing in future years.

NOTE 12: RISK MANAGEMENT

The School District carries commercial insurance for risks of loss, including property and employee health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The School District also belongs to the SEG Self-Insured Workers' Disability Compensation Fund, a public entity risk pool currently operating as a common risk management and workers' compensation insurance program for various school districts throughout the state. The School District pays an annual premium for its workers' compensation insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. Although the School District could be assessed charges beyond the annual premium, the likelihood of receiving such an assessment is minimal.

REQUIRED SUPPLEMENTAL INFORMATION

BEAVER ISLAND COMMUNITY SCHOOL
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over/(Under)
Revenues				
Local sources	\$ 1,128,032	\$ 1,151,009	\$ 1,155,525	\$ 4,516
State sources	160,794	139,325	143,051	3,726
Federal sources	25,106	25,106	22,819	(2,287)
Interdistrict and other sources	160,441	171,712	171,495	(217)
Total revenues	1,474,373	1,487,152	1,492,890	5,738
Expenditures				
Current:				
Instruction:				
Basic programs	948,406	698,402	740,125	41,723
Added needs	9,046	118,991	118,552	(439)
Support services:				
Pupil	1,200	96,156	95,947	(209)
General administration	15,500	19,150	14,140	(5,010)
School administration	228,871	259,801	241,488	(18,313)
Business services	11,000	39,250	28,998	(10,252)
Operation and maintenance	165,500	221,103	210,845	(10,258)
Other support services	32,200	53,455	55,403	1,948
Community services	-	30	-	(30)
Capital outlay	-	-	11,500	11,500
Intergovernmental payments	-	-	-	-
Total expenditures	1,411,723	1,506,338	1,516,998	10,660
Excess (deficiency) of revenues over expenditures	62,650	(19,186)	(24,108)	(4,922)
Other financing sources (uses)				
Operating transfers out	(56,336)	(29,000)	(22,240)	(6,760)
Net change in fund balance	6,314	(48,186)	(46,348)	1,838
Fund balance - beginning of year	173,729	165,916	165,916	-
Fund balance - end of year	\$ 180,043	\$ 117,730	\$ 119,568	\$ 1,838

OTHER SUPPLEMENTAL INFORMATION

BEAVER ISLAND COMMUNITY SCHOOL
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

	Special Revenue Funds		Debt Service Fund	Capital Project Fund	Total
	Cafeteria	Athletic	General Obligation		
<u>Assets</u>					
Cash	\$ 198	\$ -	\$ 7,464	\$ 8,485	\$ 16,147
Due from other governmental units	157	-	4	-	161
Total assets	<u>\$ 355</u>	<u>\$ -</u>	<u>\$ 7,468</u>	<u>\$ 8,485</u>	<u>\$ 16,308</u>
<u>Liabilities and Fund Balance</u>					
Liabilities:					
Accounts payable	\$ 168	\$ -	\$ -	\$ -	168
Due to other funds	-	-	3,210	2,823	6,033
Total liabilities	<u>168</u>	<u>-</u>	<u>3,210</u>	<u>2,823</u>	<u>6,201</u>
Fund Balances:					
Reserved for debt service	-	-	4,258	-	4,258
Reserved for capital improvements	-	-	-	5,662	5,662
Unreserved:					
Undesignated	<u>187</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>187</u>
Total fund balances	<u>187</u>	<u>-</u>	<u>4,258</u>	<u>5,662</u>	<u>10,107</u>
Total liabilities and fund balances	<u>\$ 355</u>	<u>\$ -</u>	<u>\$ 7,468</u>	<u>\$ 8,485</u>	<u>\$ 16,308</u>

BEAVER ISLAND COMMUNITY SCHOOL
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2006

	Special Revenue Funds		Debt Service Fund	Capital Project Fund	Total
	Cafeteria	Athletic	General Obligation		
Revenues					
Local sources	\$ 4,194	\$ 6,500	\$ 135,547	\$ 85,356	\$ 231,597
State sources	1,196	-	-	-	1,196
Federal sources	13,095	-	-	-	13,095
Total revenues	18,485	6,500	135,547	85,356	245,888
Expenditures					
Current:					
Athletic	-	24,652	-	-	24,652
Food service	24,221	-	-	-	24,221
Debt service:					
Principal	-	-	120,000	17,730	137,730
Interest	-	-	15,495	1,139	16,634
Other	-	-	1,013	-	1,013
Capital outlay	-	-	-	72,604	72,604
Total expenditures	24,221	24,652	136,508	91,473	276,854
Excess (deficiency) of revenues over expenditures	(5,736)	(18,152)	(961)	(6,117)	(30,966)
Other financing sources (uses)					
Land contract	-	-	-	-	-
Operating transfers in	4,088	18,152	-	-	22,240
Total other financing sources (uses)	4,088	18,152	-	-	22,240
Net change in fund balances	(1,648)	-	(961)	(6,117)	(8,726)
Fund balances - beginning of year	1,835	-	5,219	11,779	18,833
Fund balances - end of year	\$ 187	\$ -	\$ 4,258	\$ 5,662	\$ 10,107

BEAVER ISLAND COMMUNITY SCHOOL
Other Supplemental Information
Statement of Receipts and Disbursements
Fiduciary Fund
Year Ended June 30, 2006

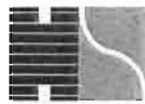
	Balance June 30, 2005	2005-2006		Balance June 30, 2006
		Receipts	Disbursements	
Youth Consortium	\$ 3,697	\$ 12,916	\$ 4,645	\$ 11,968
Islander Booster Club	6,257	11,534	13,509	4,282
Board Account	(1,216)	183	30	(1,063)
Gullahorn Scholarship	6,650	-	2,200	4,450
5th/6th Grade	4,228	3,723	4,746	3,205
7th/8th Grade	(1,624)	11,220	13,095	(3,499)
Junior Class	5,172	1,682	1,923	4,931
Lockwood Memorial	940	-	-	940
SADD	475	-	247	228
Student Council	925	305	866	364
Schoolyard Garden Fund	600	-	-	600
Total	<u>\$ 26,104</u>	<u>\$ 41,563</u>	<u>\$ 41,261</u>	<u>\$ 26,406</u>

BEAVER ISLAND COMMUNITY SCHOOL
Other Supplemental Information
Schedule of Bonded Indebtedness
June 30, 2006

	<u>Date of Note</u>	<u>Amount of Note</u>	<u>Interest Rate</u>	<u>Date of Maturity May 7</u>	<u>Total Outstanding at June 30, 2005</u>	<u>Total Interest Payable</u>
1992 School Building and Site Bonds	9/11/92	\$ 900,000	5.65-6.10%	2007	<u>\$ 135,000</u>	<u>\$ 8,232</u>
					<u><u>\$ 135,000</u></u>	<u><u>\$ 8,232</u></u>

Call provision: All bonds are now subject to redemption at the option of the School, in such order as determined by the School on any interest payment date, at par and accrued interest to the date fixed for redemption.

INTERNAL CONTROL, COMPLIANCE AND OTHER MATTERS



September 21, 2006

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Superintendent and Board of Education
Beaver Island Community School
Beaver Island, Michigan

We have audited the general purpose financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Beaver Island Community School as of and for the year ended June 30, 2006 which collectively comprise Beaver Island Community School's basic financial statements and have issued our report thereon dated September 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Beaver Island Community School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and other matters

As part of obtaining reasonable assurance about whether Beaver Island Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

Hill, Schroderus & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

NO MANAGEMENT LETTER WAS ISSUED TO THE BEAVER ISLAND COMMUNITY
SCHOOL FOR THE YEAR ENDED JUNE 30, 2006.

NO DATA COLLECTION FORM IS REQUIRED TO BE ISSUED TO THE BEAVER
ISLAND COMMUNITY SCHOOL FOR THE YEAR ENDED JUNE 30, 2006.